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# The Duties and Problems of Directors of Co-Operative Societies

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# The Duties and Problems of Directors of Co-Operative Societies

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**George Keen, secretary of the Canadian Co-operative Union,  
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Field**

One of the problems American co-operators should be concerned to solve is that of instability. The oldest society in the organized movement in Canada has not been established twenty five years. Less than half have been in existence more than ten years. No doubt the experience is similar in the United States. Co-operative Societies have been organized on this continent for a period almost equal to that within which the British co-operative movement has been developed. While many societies in England and Scotland have been operating half a century or more and have steadily grown in volume and variety of business, and in success and usefulness, few, if any, consumers' or distributive societies have had such a lengthy career in North America.

This fact may, in part, be attributed to lack of true understanding of, and devotion to, the social aims of co-operation on the part of any considerable number of members of co-operative societies. Long experience has caused the writer to come to the conclusion that most failures of co-operative societies attributed to mismanagement are really due to inefficient direction. Directors who thoroughly understand their duties and give conscientious attention thereto, may usually be relied upon to select competent managers, but should they make a mistake they are in a position to effect a change before any serious loss of the resources of the members invested in the organization can be made. So important does the British Co-operative Union regard the duties of directors that it has published a book of 456 pages, "Handbook for Members of Co-operative Committees," by Professor F. Hall, its adviser of studies, which is useful as a book of reference for directors.

### Directors Should Direct

While the writer does not wish to minimize the necessity of a co-operative society securing a skilled and capable manager it is of paramount importance that great care should always be taken in making appointments to the board of directors, if the society is permanently to prosper. Frequently it is found that if the manager is competent and successful in the discharge of his duties, the board is satisfied to leave everything to him. The directors really cease to direct, and degenerate into an advisory committee to the manager upon such questions as he may care to consult them about. The whole business, and the integrity of the members' investments in the society, then become exclusively dependent on the manager. So long as he stays everything is all right. Good managers, however, sometimes look for a larger field for the exercise of their talents. They may die, or for one of any number of personal reasons may wish a change of occupation. The board of directors having neglected their duties then find how little they know of the business they are supposed to direct. They are likely to make a mistake in the appointment of a successor to the manager, and, through lack of executive knowledge and experience they might and ought to have acquired, fail to realize it until impaired through an avoidable cause.

It should be remembered that while managers may come and go, the board of directors is a permanent body, so long as the society exists. Individual directors may retire and new members of the board may be elected. As a rule, a considerable number of the personnel of an efficient board of directors remains, from whom new directors gain new experience in their duties, and so on from year to year indefinitely. It is that fact which gives the well directed co-operative society stability, and enables it to achieve progressive success.

As the name implies, the duty of a board of directors is to direct. The board cannot intelligently direct unless it also exercises systematic supervision of the undertaking. It is necessary, directly or through sub-committees, that the directors should at least month by month, have an intimate understanding of the operation of the business. Owing to the nature of a co-operative society, it is more

important that the directors elected to safeguard the interests of the members should regularly become acquainted with the administration of the business than the directors of a private corporation. Indeed, in Great Britain boards of directors are usually called boards, or committees, of management.

In rural districts the board should meet at least once a month. The day or date should be a fixed and regular one. Directors have then an opportunity to arrange their personal engagements or duties with that knowledge. There should be a definite program of business to be transacted. The chairman should see that it is strictly adhered to, and that the discussion is relevant to the subjects before the meeting. A really good director—one with a practical business mind—will get tired of having his time wasted by being compelled to listen to discussions and arguments which have no relation to the business before the meeting. The best directors are, therefore, sometimes lost to competitive service, and those remaining on the board are less able to function with efficiency.

### Monthly Statements

The manager or secretary should place before each regular board meeting a statement reviewing the operations of the society since the previous one. If the meeting is held about the middle of the month ample time is allowed for its preparation for the previous month. It is, in the writer's opinion, important to be informed how the sales compare with the previous month of the previous year. If they are less, the board is put on enquiry to know the reason why. They will be able to find out if it was unavoidable. It may be that trade has been lost through some misunderstanding, and members of the board may be in a position to assist the manager in regaining it. Arrangements should be made, periodically to ascertain the proportion of purchasing to non-purchasing members, and steps taken to stimulate the loyalty of members giving inadequate trade support, or failing entirely in this respect. The purchases for the month compared with those of the corresponding month of the previous year should be shown. It may not be possible in the case of an oil and gasoline association to over-stock, unless it carries other lines also. If, however, purchases

for the month are in excess of those of the same month in the previous year on a similar volume of sales, the fact certainly suggests some enquiry on the part of the board. It may possibly be that the society is losing money, and that the loss is being carried through increased credit granted by the suppliers, or that the manager is embarking on speculative purchases. In this connection it may be desirable to have a statement of the outstanding liabilities at date compared with those of a year ago, and if the same are considered in relation to the bank balance, the board can form an approximate idea as to whether or not the liquid condition of the business is being maintained, or if it is in danger of drifting to a state which may make it difficult to meet obligations to due date. If unsatisfactory trends are disclosed, they should be corrected before they become more difficult.

### Watch Credit Closely

It is undesirable to operate a cooperative society on a credit basis. As, however, each society is self governing, it decides for itself its own business policy. Some societies feel local conditions leave no alternative. If credit is furnished however, the responsibilities of the board are greatly increased. The directors must determine the conditions under which credit shall be given, and regulations imposed by the board should govern all members. The manager is then personally relieved of the unpleasant responsibility of distinguishing between members as to whether or not credit should be given. The directors must periodically take steps to satisfy themselves that their credit regulations are being respected. Wherever conveniently possible, there should be included in the statement regularly before the board information showing the variations of accounts receivable compared with the volume of sales. The directors will then see if they are growing out of proportion to the business done, and if so, they will be concerned to give the necessary instructions to remedy so undesirable a situation, and in due course satisfy themselves they are being carried out. Periodically too, they might consider it necessary to call for a report as to inactive accounts, a common cause of bad debts, with the view to action being taken satisfactorily to adjust such an undesirable condition. If the business is large

and departmentalized, it will probably become necessary that such sub-committees of the board should be appointed to supervise the operations of the departments, and report thereon regularly to the board. Such a statement might also indicate, after careful calculation, an estimated percentage of gross profits on the sales for the month, showing the wage and general expense ratio, or, if desired, the same might be classified under more headings, and estimated net surplus or loss given.

There is nothing in this advice which suggests anything like interference with the manager in the discharge of his duties, nor, if the books are properly and regularly kept, will the information asked for be too onerous, or difficult to supply. A good manager will not object to disclosing to his board periodically the result of his management; the supervision exercised will make the indifferent one more attentive to his duties, and the unsatisfactory manager cannot do much injury before the board will realize a change is necessary. The suggestions above made are, of course subject to some variation, and possibly to amplification, according to the nature of the business. It should be obvious, however, that if such information is regularly forthcoming to the board at its meetings, the directors will be in a position intelligently to direct and supervise the operation of the organization for the welfare of which they have assumed responsibility.











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